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ABSTRACT

This document, which was written for adult educators in Georgia, offers instructional plans and practical strategies for helping students in adult literacy, adult basic education (ABE), General Educational Development, and English-as-a-second-language (ESL) programs understand the credit traps that can hurt them. The document begins with a discussion of the businesses that take advantage of the many individuals who are shunned by mainstream banks and the importance of educating ABE and ESL students about the potential pitfalls of dealing with those businesses. The remainder of the document presents and explains three learning activities designed to teach adult students to make wise personal decisions about using credit in their lives. The first activity explains how interest works. In the second activity, students are taught to use basic math skills to determine how much credit really costs. In the third activity, students apply what they have learned about calculating the cost of credit by conducting outside research of community businesses (a rent-to-own shop and a pawn shop). The following items are included for each activity: overview and rationale; list of skills developed in the activity; materials needed; steps educators should take to prepare for and conduct the activity; discussion questions; and student handout. (MN)

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Credit Traps Can Hurt Your Adult Learners

Beyond Basic Skills: Innovative Teaching Materials for Georgia's Teachers of Adults
volume 1, number 1, Fall 1996

Tom Valentine and Jenny Sandlin, Co-Editors

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Beyond Basic Skills

An Instruction-Oriented Newsletter for Georgia's Teachers of Adults

Volume 1, Number 1 Fall 1996

Beyond Basic Skills is an instruction-oriented newsletter. It doesn't contain "news" about events and people. Instead, it offers practical strategies and instructional plans designed for immediate use by teachers in Georgia's adult literacy, ABE, GED, and ESL programs. This issue focuses on one important aspect of CONSUMER LITERACY: How to use credit wisely. We hope you'll use these activities in your classroom soon!

Tom Valentine
Jenny Sandlin
Co-Editors

Credit Traps Can Hurt Your Adult Learners

In a recent, angry book entitled *Merchants of Misery*, Michael Hudson describes a rapidly growing "poverty industry . . . made up of an array of businesses: pawnshops, check-cashing outlets, rent-to-own stores, finance companies, used car dealers, high-interest mortgage lenders, trade schools for the poor and undereducated." Hudson estimates that there are more than 50 million Americans who are shunned by mainstream banks and forced to deal with "alternative banks" that are "raking in dollars at a dizzying pace by targeting people on the bottom third of the economic ladder."

These businesses offer "quick money" and "easy credit" deals designed especially for those in our society who lack both money and a good credit rating. In most cases they are poorly regulated, and many charge nearly incredible interest rates--routinely exceeding 100% per year!

Many of our adult students are exactly the kind of people targeted by these businesses. It is ironic that even while they are in your programs, often trying to improve their earning power, many students will fall prey to credit schemes that can cancel out the economic gains they make by improving their education.

If you are concerned that some of your students might be jeopardizing their financial well-being, you can do something about it! The goal of the instructional activities contained in this issue is simple: Hopefully by the end of your last session, your adult learners will be in a much stronger position to make wise personal decisions about how to use credit in their lives.

Planning the Sessions

The three activities below are designed for use with groups of learners, and each activity can stand alone. If you decide to teach all three activities, you will need to schedule four or five two-hour sessions. The way in which you set up these activities will depend on your teaching situation. Some teachers will choose to use the activities in their regular classrooms. Others might try to recruit volunteers from multiple classrooms--or even the broader community--for a "special weekly workshop."

Activity #1: How Interest Works

Overview and Rationale

This activity is designed to introduce some key concepts about credit and to get the learners in the group talking about their own credit experiences. During this activity, learners will read and discuss two passages about interest.

Skills Developed in This Activity

Critical reading, critical thinking, and critical discussion skills.

How to Prepare for this Activity

✓ Read the passages contained on the handout and try to predict your learners' ability to read them.

✓ If you believe that you need to "preteach" selected vocabulary, identify those words and decide the best way to define them for your learners.

✓ Review the discussion questions below, and adapt them--or write new ones--based on your own preferences and what you know about your learners.

Materials Needed for this Activity

✓ A copy of the handout entitled "Activity #1: How Interest Works," enclosed, for each learner.

✓ Discussion questions for you, and, if you wish, for each learner (see box entitled "Activity #1 Discussion Questions," below).

What to Do in the Session

1. Get the group talking by asking a few broad questions which anticipate the content of the reading passages: "Can

Activity #1 Discussion Questions

Part 1

1. What experiences have you had with credit and interest?
2. Have you ever tried to get credit and been turned down? If so, why do you think that happened to you?
3. Do you think businesses like to give credit? Why or why not?

Part 2

1. Have you or someone you know used a pawn shop? How did it work?
2. Have you or someone you know ever dealt with a rent-to-own store? How did it work?
3. Why do some businesses lend money to "bad credit risks"? Why don't these businesses go bankrupt?

anyone tell me what interest is? What credit is? Is credit a good thing or a bad thing? Why?" Try to get each member of the group to contribute something to the conversation.

2. Preteach any words that might prove troublesome to your readers.

3. Distribute the handouts and have students read Part 1. If you have an advanced group, have them read it silently. If any member of the group has very poor reading skills, then you or an advanced reader in the group should read the passage aloud while the others follow along. Alternately, you could have learners take turns reading individual sentences aloud, with you helping as needed. You might be surprised to discover how much your students enjoy reading aloud.

4. Ask the discussion questions for Part 1. Allow ample time for discussion, and don't be afraid to let discussion move beyond the questions. Encourage students to speak to one another (not just to you) and react to each other's ideas.

5. Repeat these steps for Part 2.

6. End the session by introducing the topic to be covered during the next session. Say something like this: *Different types of businesses charge different interest rates for credit. That means that you can pay more for things depending on where you get them. Let's say you want to buy a television that costs $350 in the store. How much do you think that same television would cost if you used store credit? (Have them write down their answers, but not say them aloud.) How much do you think that same television would cost at a rent-to-own store? Save your answers for the next session, during which we will find out how much credit really costs.*

Activity #2: How Much Does Credit Really Cost?

Overview and Rationale

This activity will help your learners understand how much they pay when using credit and the benefits of comparison shopping for credit. During this activity, you will need to demonstrate the basic math involved in calculating credit charges. Learners will read a passage introducing key concepts related to credit and illustrating the practical impact in dollars of using different types of credit.

Skills Developed in This Activity

Critical reading, math, critical thinking, and critical discussion skills.

How to Prepare for this Activity

✓ Read the passages contained on the handout and try to predict your learners' ability to read them.

✓ Decide if you need to preteach any vocabulary, and plan accordingly.

✓ Plan exactly which math calculations you will demonstrate, based on your own expertise and that of your students. Minimally, you should demonstrate how to calculate annual interest (multiply the Annual Percental Rate x the Principal). With your advanced classes, you might choose to deal with monthly charges and compound interest. Your public library will have books showing how to calculate interest.

✓ Review the discussion questions below and adapt them to suit your teaching style.

Materials Needed for this Activity

✓ A copy of the handout "Activity #2: How Much Does Credit Really Cost?," enclosed, for each learner.

✓ Discussion questions for you, and, if you wish, for each learner (see box entitled "Activity #2 Discussion Questions," below).

✓ Any other handouts you choose to prepare on interest calculations.

What to Do in the Session

1. Before distributing the handout, ask the members of the group to share the estimates they made at the end of the last session. Record the estimates on the board and let the group debate which is right.

2. Distribute the handouts and, using one of the processes described in the directions for Activity #1, have them read and discuss *the first paragraph.* Ask them if they are one of the people who hate doing math.

3. Demonstrate an interest calculation using nice, round numbers. (For example, a used car that costs $1200 and an APR of 24% works out to an interest charge of $288 per year.) In the course of your explanation, you will need to explain the meaning of "principal" (the amount borrowed). You should also use the demonstration to model and promote the use of calculators by students in their everyday lives--something that many teachers neglect to do, because they believe students first have to learn basic arithmetic in order to survive tests. If you have very low level students in your group, let them know that you are not expecting everyone to be able to do the math, but you want to make sure that everyone understands the logic of interest calculations so that no one can cheat them.

4. Now have the group read the remainder of the handout, and ask the discussion questions below.

5. End the session by letting students know about what you'll be doing in the next activity. Say something like this: *Now we know how credit works. In the next activity, we're going to work together on a community research project that will help us to understand how credit can affect the lives of people we know.*

$$$ Activity #1: How Interest Works $$$

PART 1

Most people want more money than they have. Hundreds of years ago, businesses figured out a way to make profits by letting people spend more money than they have. In modern days, there are two common ways that businesses do this. The first way is done by banks and finance companies. They let you borrow money if you promise to pay them back the money you borrow--along with a "little extra"--in the future. That "little extra" that banks, finance companies, pawn shops, home improvement companies, and other companies charge for lending you money is called *interest.*

There is a second way that businesses make money by letting you spend more than you have. Department stores, car dealers, rent-to-own stores, credit card companies, and many other types of businesses let you buy something now and pay for it later. When companies let you buy things that you pay for in the future, it is called giving *credit*. These companies also charge *interest*.

PART 2

Businesses make a lot of money on interest. As long as they believe that you will be able to pay back the money you owe, many businesses will give you as much credit as they can. People who have high-paying jobs are able to get lots of credit without paying a lot of interest. That's because the companies know that they will be able to get their money back, even if they have to take these people to court. People with good jobs and a *good credit history* can get credit cards where they pay as little as 5% per year to borrow money.

People who do not have much money and people who have had trouble repaying loans in the past have a hard time getting low credit rates. Businesses call these people *bad credit risks*. Many businesses don't like to lend them money, because they are afraid that they will have trouble getting it back. But there are some businesses that will lend money or give credit even to people they know are bad credit risks. In fact, they make it very easy for almost anybody to get credit. They can be very friendly, and even treat people with the kind of respect they don't get from banks. But they don't charge 5% interest, instead they charge a lot more.

Pawnshops in Georgia can legally charge as much as 188% per year for lending money. This means that if you borrow $100 dollars from a pawn shop, in one year, you will owe them $288. Some pawnshops break the law and charge even more. Rent-to-own stores don't call what they do charging interest, but it comes out the same way. If you get $200 worth of furniture at a rent to own store, you might end up paying more than $700 before you own it. Now do you understand why these businesses are nice even to people they consider bad credit risks?

$$$ Activity #2: How Much Does Credit Really Cost? $$$

Credit uses some very tricky math. You need to use percents, decimals, addition, multiplication, and division to really understand it. Do you hate doing math? That's good news for some businesses! They don't want you to understand how credit works. That way you'll agree to give them lots of money without even knowing how much! Different businesses charge very different amounts for credit. This can make a huge difference in how much you are really paying for something you want.

Because it's so easy to trick people using credit, the government requires all loan contracts and credit offers to contain certain information. You can find the words ***Annual Percentage Rate (or APR)*** on these forms. That tells you how much interest you will pay every year. Usually, you will also find the ***total amount of interest*** you are paying for the credit or loan. Be sure to look at these numbers carefully, even if the salesperson pressures you or talks about low monthly payments! If you shop around before signing any contracts, you can save yourself a lot of money. Rent-to-own stores don't even talk about interest, because, technically, they are not giving you a loan. But you should look closely at their brochures and contracts. The brochures are required by law to tell you the total price you will pay before you own what you are renting. You might be surprised to find that you are paying at least three or four times what the item is really worth!

Here's an example of how different interest rates can be. Let's say you want to buy a new television set that costs *$350* at the store, but you can only afford to pay *$35 per month*. After shopping around, you might find that you have the following choices.

Choice #1: Wait and Save. If you save your money for ten months, you can buy the television without using credit. This means that you will have to wait for the new television. *The total cost for the television would be $350.*

Choice #2: Use Store Credit. If the store had a 21% APR, your interest payments would be approximately $73. You would get the television right away, but the *total cost would be $423.* You would own the television after 12 months of payments.

Choice #3: Rent-to-Own. If you had trouble getting credit at the store, you might decide to go to a rent-to-own business. They would let you have the television for only $8.99 per week. This can sound very good, because it doesn't sound like much money and you can have the television right away. But if you read the contract carefully, you'll find out that *the total cost of the television is $934.96.* You also would not own it for two years, and if you missed any payments--even after paying hundreds of dollars, they could take the television back and you would have nothing. Because renting-to-own is not considered a credit business, these companies are not controlled by the same laws as the store. If they were, the Annual Percentage Rate would be more than 46%, which would be illegal!

Activity #2 Discussion Questions

1. Do you think it's fair for businesses to charge interest? Why or why not?
2. Are there times when you would use interest, even knowing that it will cost you more? Why? How much interest would you be willing to pay?
3. Do you believe that some businesses would cheat you if they could? Why or why not?
4. How can you stop someone from taking advantage of you?

Activity #3: Community Research on Credit

Overview and Rationale

This activity is unusual, in that it requires outside research work on the part of your adult learners. It will make the foregoing activities "real" for your adult learners, because they'll have a chance to apply the things they've learned to their everyday lives. Too often, adult learners fail to see the connection between what they learn in classes and the everyday business of life. This activity will enable learners to bring the "real world" of community businesses and personal experiences about credit into the classroom.

In this activity, members of the group will work together to gather information in the community about credit. Group members will be asked to do one of two things:

★ visit local stores and lending institutions and collect information about their available credit terms, or

★ interview friends, acquaintances, or relatives about the experiences they have had with personal credit.

While gathering information, learners can work alone, in pairs, or in small groups. After they have collected this information, they will bring the information back to the group, where it will be discussed and analyzed.

Depending on the number of learners in your group and the number of research tasks you undertake, this activity will require two or three sessions.

Skills Developed In This Activity

Information gathering, writing, oral communication, critical thinking, critical reading, critical math, and teamwork skills.

What You Need To Do To Prepare for This Activity

We have not prepared any handouts or worksheets for this activity, because the research you undertake will depend on the businesses operating in the communities in which your learners live. You will need to prepare *Research Guides* for the learners to use. It's worth the work to prepare these sheets; without them, learners are apt to be too nervous to get the information the group needs. Moreover, you'll be able to re-use these sheets with future learning groups. Each *Research Guide* should contain simple, clear directions which will help learners to accomplish a community research task. Sample *Research Guides* are below (see boxes entitled "Research Guide A" and "Research Guide B").

Materials Needed for This Activity

✓ A Research Guide, note pad, and pen or pencil for each learner in your group.

What to Do in The Sessions

1. The first session will be devoted to planning. Explain to the group the benefits of working as a team to gather information that everyone needs. Work with the learners to form research teams.
2. Describe the Research Guides you have prepared and allow the teams to select the ones they want. Generally speaking, more timid students should probably stick to interviewing acquaintances, while only the bravest souls should take on businesses which you believe might be reluctant to share information.
3. Subsequent sessions should focus on making sense of the information students have collected. Generally, you should start by asking students to "tell us about your research." Let them present the information as they choose, and compliment them on a job-well-done.
4. Now comes the creative part. In making sense of the information students collect, you'll need to use teaching skills that you don't get a chance to use when your students have their noses in workbooks. Show them where to look on contracts or brochures to find the Annual Percentage Rate (APR) or terms of rental; the law requires that this information appear, but it can be hidden in very small print. Discuss the personal experiences of the people they interview, being sure to ask evaluative instead of purely factual questions. (Example: "Was Fred wise to buy that car on credit? What could he have done differently?")

Research Guide A

Assignment:
Visit the Rent-to-Own store on Main Street and find out the cost of renting-to-own a television set.

Information to Collect:
After picking out the TV you want, be sure to find out:
1. The *amount* of weekly or monthly payments.
2. The *number* of weekly or monthly payments.
3. What happens if you fail to make payments.

Research Guide B

Assignment:
Interview someone you know who has dealt with a pawn shop or title pawn shop.

Things to Do:
Interview the person about his or her experiences with the pawn shop.

Questions to Ask:
1. Why did you use a pawn shop?
2. What did you pawn? How much do you think it was it worth?
3. How much money did they lend you?
4. How much did you have to pay them each month? For how many months?
5. How were you treated by the people in the shop?
6. Did you get back the item that you pawned?
7. Would you deal with a pawn shop again? Why or why not?

again? Why or why not?

Something to Think About

It's common knowledge that in most of the literacy programs in the United States, there is a very real difference between the income level of teachers and the income level of students. Many students are acutely aware of this difference, and sometimes they'll believe that teachers lead a far more luxurious lifestyle than they really do.

Because of this perception, you'll need to be especially sensitive when you work with students on the money-related activities described above. If anything in your words or manner suggests to students that you are preaching "the right way to behave," they might resist the type of self-revealing talk that can make discussion groups especially meaningful. The "safety factor" in group discussion will be greatly enhanced if, early in the process, you let them know that credit traps can be a problem for most Americans--regardless of their income. To minimize the distance between you and your students, you might even briefly describe any credit-related problems people you know have had.

Free for the Asking

Uncertain about your group instruction skills? Send us a self-addressed stamped envelope and we'll send you a free copy of Tom Valentine's one-page tip sheet: "Seven Simple Strategies for Improving Group Instruction in Adult Education Settings."

Resources

If you want to learn more about credit traps, we suggest you read the following:

Hudson, Michael (1996). Merchants of Misery. Common Courage Press: Monroe, ME.

Hudson, Michael (1996). "Cashing in on Poverty". *The Nation*, May 20, 1996.

For more information about consumer credit, you can contact the following organizations:

The Georgia Center for Law in the Public Interest
Athens, GA (706) 546-9008

U.S. Public Interest Research Group
Washington, D.C. (202) 546-9707

Governor's Office of Consumer Affairs
Atlanta, GA (404) 656-3790

If any of your students are experiencing severe credit problems, you should refer them to:

Consumer Credit Counseling Service
1-800-251-2227

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